



AgEcon SEARCH
RESEARCH IN AGRICULTURAL & APPLIED ECONOMICS

The World's Largest Open Access Agricultural & Applied Economics Digital Library

This document is discoverable and free to researchers across the globe due to the work of AgEcon Search.

Help ensure our sustainability.

Give to AgEcon Search

AgEcon Search
<http://ageconsearch.umn.edu>
aesearch@umn.edu

*Papers downloaded from **AgEcon Search** may be used for non-commercial purposes and personal study only. No other use, including posting to another Internet site, is permitted without permission from the copyright owner (not AgEcon Search), or as allowed under the provisions of Fair Use, U.S. Copyright Act, Title 17 U.S.C.*

Quality Markers and Consumer Communication Strategies: Empirical Evidence in the ‘Very Fresh’ Sector in Italy

Filippo Arfini, Corrado Giacomini and Maria Cecilia Mancini

Dipartimento di Economia, Università degli Studi di Parma, Italy

filippo.arfini@unipr.it; corrado.giacomini@unipr.it; mariacecilia.mancini@unipr.it



**Paper prepared for presentation at the 110th EAAE Seminar ‘System Dynamics and Innovation in Food Networks’ Innsbruck-Igls, Austria
February 18-22, 2008**

Copyright 2008 by[Arfini, Giacomini, Mancini]. All rights reserved. Readers may make verbatim copies of this document for non-commercial purposes by any means, provided that this copyright notice appears on all such copies.

Quality Markers and Consumer Communication Strategies: Empirical Evidence in the ‘Very Fresh’ Sector in Italy

Filippo Arfini, Corrado Giacomini and Maria Cecilia Mancini

Dipartimento di Economia, Università degli Studi di Parma, Italy

filippo.arfini@unipr.it; corrado.giacomini@unipr.it; mariacecilia.mancini@unipr.it

Abstract

Quality is a key factor when consumers choose agri-food products, but at the same time is difficult for them to assess. On the demand side, consumers require protection measures, and on the supply side, efficient communications need to be available to all operators, including those who cannot afford to supply their own. In this context, quality markers such as logos, brands and indications or denominations that distinguish a product from its competitors can be a strategic way of transmitting information, especially for firms which cannot afford resources for communications or their own brand name. This research analyses and assesses the role of brands and territorial markers (PDO, PGI) in enhancing and promoting “very fresh” food products, in particular fruit and vegetables.

The first part of the work identifies the most widely used quality markers, and the legal and organisational aspects for some of them. The second part is empirical and includes case studies on PDO and PGI, two company brands (Melinda and Marlene) in the fruit and vegetable sector and, finally, one collective brand, “QC – Qualità Controllata” set up by a regional authority, Emilia Romagna Region. Our case studies lead to the conclusion that collective brands and indications or denominations alone are not a sufficient condition for commercial success. What is essential, on top of basic product requisites, is the organisation of supply and brand strategy.

1. Food quality and information

The idea of quality is continuously evolving, and any attempt to define it are immediately overtaken by events, as new meanings are added to existing ideas. Nowadays, the consumer, the beneficiary of food products, is increasingly pro-active and looks for different types of quality, such as brands, specialty and local origin, quality systems, environment-friendly and organic as well as ethical products, etc. According to tastes and preferences, consumers assign different values to different types of quality and are willing to pay for them proportionally. In practice, consumers largely evaluate quality through their perceptions, which are filtered and weighted by a scale of preferences which lead them to make choices. Among the most important factors guiding consumer choice are “credence attributes”, mainly involving the production process.

“Credence attributes” are characteristics which are not perceivable when the product is purchased or consumed, and which users cannot personally and directly assess. For this group of attributes the trust required of users becomes fundamental, as does the role of information in bridging this “knowledge gap.” (Dries; Mancini, 2006). In other words, some sort of intervention is required in information processes; this may be private or institutional (Shapiro, 1983; Boccaletti and Moro, 1993). The intervention concerns consumer health measures, market transparency in minimum quality standards, regulations on labelling, advertising regulation, recognition and registration of markers, inspection bodies and disciplinary guidelines etc..

For companies, a labelling policy is the main way of overcoming the information gap on product quality and differentiating products from competitors, to gain competitive advantage in terms of product or brand loyalty.

The Italian agri-food system is characterised by a large number of SMEs so it is essential for them to have adequate instruments for product communication and enhancement. "Quality markers" are widely used by firms in placing products on the market to identify products or services and differentiate them from competitors. They may be names, symbols, designs or a combination of these.

2. Quality markers

Quality markers are now extremely widespread and varied in Italy and this paper focuses on two of the most clearly visible markers on the market; collective brands and PDO and PGI markers. Collective brands are regulated by Directive 89/104/CEE and legislation in member states implementing the directive. A collective brand is not registered by an individual subject who uses it to distinguish his/ her own products, but by "subjects guaranteeing the origin, the nature or quality of certain products and services" with the aim of "permitting use in accordance with regulations governing producers and sellers."

Public bodies as well as firms may own collective brands because in the current system they function in the general interest and guarantee quality. What distinguishes a collective from an company brand is that it can be used by subjects other than the subject that registers it. In the agri-food sector there are two main types:

1. geographical or local collective brand indicating the provenance in a certain area;
2. collective quality brand with disciplinary specifying production process or product characteristics relating to the use of certain raw materials or a combination of these.

These two types can be further classified on the basis of:

- a. products covered by the brand name. The brand is 'uni-sector' or 'product' if one type of product is covered. It is an 'umbrella' brand if it covers different types of product;
- b. ownership: the collective brand is public if owned by a public body and private if the owner is private, in this case usually a consortium or association .

The term 'brand' is sometimes incorrectly used for other markers which are not true brands and are awarded by the European Commission. Like collective brands, they can concern area or quality, according to whether they are awarded for local origin or for production techniques. The denomination PDO and the indication PGI are geographical markers; certificates of conformity with organic production are quality markers¹.

They have the same function as brands in differentiating products but they are not available for free use. Geographical signs are only used by subjects within a given area, whereas collective brand can be used by third parties outside the area, albeit accompanied by other denominations (Albisinni and Carretta, 2003).

1. PDO and PGI are regulated by Reg. (CE) 510/06 and organic production by Reg. (CEE) 2092/91.

3. Case study: geographical markers (PGI and PDO) and brands in the very fresh product sector

Our investigation assessed the role of geographical markers and brands in the promotion and enhancement of very fresh products. Unfortunately there is no space here to describe the method we followed¹ or full results². In this paper we focus on findings relating to the fruit and vegetable sector.

3.1 Investigation of geographical markers in the fruit and vegetable sector

The investigation on PDO and PGI products in the fruit and vegetable sector in Italy involved 44 products³. The first finding was that most products are subject to the constraint that they are found in small quantities and are seasonal, which means that the outlet and marketing strategy will be geographically limited. However, there is no single model of production and the traditional variables, size of area supplying raw ingredients, size of processing area, production season and volumes of output etc., are insufficient to allow an economic classification of economic role of the products.

The success of specialty products in the market does not depend solely on economic variables. It also depends on elements either inside or outside the area, beyond the individual firm. Firms are in fact situated inside a complex economic context and interact in dynamic reciprocal influence which is wider than the individual and which develops over time. Production units are thus part of networks of material and immaterial relationships; associations, consortia and trade associations play an important role in regulating this interaction.

It is therefore widely recognised that there is no single marketing strategy to fit all specialty products. It is however established that a key condition for success is the definition of the requisites of the product and its image and supply chain. This means identifying intervention required for high quality standards, pricing policy and joint communication and promotion strategy for the brand. A strategy of this type of course requires organisation that can govern change and that can identify the innovations needed to raise product and system standards and internalise the innovation without unequal effects on producers.

There have been several cases in Italy where a geographic marker has been registered before the production chain was organised. In other words, it was launched in the absence of a joint strategy for selling, supply and management of production vis à vis the local area and the combination of services required by distribution channels to launch the product.

We therefore focus our analysis on two success stories; “Mela della Val di Non” PDO and “Mela dell’Alto Adige” PGI apples. Our case studies aimed to identify best practice in two of the economically most important schemes in Italy.

The two types of apple are products whose production organisation and sales and marketing strategies are consolidated. They both exemplify socio-economic success as well as organisa-

1. The first part of the investigation looked at the universe of PDO and PGI very fresh products in Italy. Data was collected from questionnaires of Consortia or other subjects applying for registration of PDO and PGI's. Quantitative data covers characteristics of consortia and markers, volumes and value of certified output, distribution channels and promotion. Qualitative data was collected through interviews. We made several case studies of company brands and private and public collective brands in the very fresh market in Italy.

2. Full results appear in Giacomini C., Cernicchiaro S., Mancini M.C., Menozzi D. (2007): “Lo sviluppo dei marchi geografici collettivi e dei segni distintivi per tutelare e valorizzare i prodotti freschissimi”, Franco Angeli, Milano.

3. November 2006 figures.

tional achievement. “Mela della Val di Non” covers 5 000 small producers and “Mela dell’Alto Adige” covers 9 300 producers in the Autonomous Provinces of Trento and Bolzano.

There are some other similarities. Both apples are mono-crops in neighbouring areas, and the primary sector has similar structural characteristics. Output volumes are high and supply was organised in the production phase some time ago. These last two characteristics are not found in other fruit and vegetable speciality products.

The application for PDO registration “Mela della Val di Non” has been managed by the Consorzio di Tutela della Mela della Val di Non, which is a body founded by Consorzio Melinda which represents the real decision marking institution of all the farms producing apples in Val di Non and Val di Sole.

The Consorzio Melinda is characterized by a high level of centralisation as it oversees completely selection machinery, storage, packing etc and members have to give their entire output to the consortium.

Four members make up the Consorzio della Mela dell’Alto Adige: Consorzio VOG, Associazione delle cooperative della Val Venosta (VIP), Associazione Fruttunion and Associazione incremento aste frutta Alto Adige (FOS). The two most important members, as per quantity of production, are Consorzio VOG and Associazione delle cooperative della Val Venosta (VIP)¹.

The analysis of the case studies highlights that the application for PDO (Mela della Val di Non) and PGI (Mela dell’Alto Adige) registrations has followed in time the organisation of the supply chains and the valorisation of the brands owned by the Consortia and the Associations.

The research has therefore analysed the strategies of two Consortia and their brands, which can be considered as the most representative among those operating in the supply chains of Mela della Val di Non and Mela dell’Alto Adige, that is the “Consorzio Melinda” and its brand Melinda and Consorzio VOG and its brand “Marlene”.² (Fig. 1).



Figure 1. Melinda and Marlene logos which include PDO and PGI labels respectively

From the start, the Consorzio Melinda concentrated on creating a brand and the design of an inimitable logo. It made huge investments in advertising and promotion in order to strengthen consumer perception of the link between Melinda and high quality apples. Subsequently there was a focus on young consumers³. Melinda was awarded PDO status only in 2003. The brand now guarantees taste and smell and hygiene and health standards, while the PDO status guarantees the geographical characteristic of the Val di Non and Val di Sole.

1. The production of apples under Consorzio VOG counts about 550.000 tons while Associazione delle cooperative della Val Venosta (VIP) produces around 250.000 tons, per year.

2. Even if is out of the scope of the research, one more interesting case is represented by “Val Venosta” apples. The brand Val Venosta is owned by the VIP Association. The strategy of the Association has first focussed on the quality of the product (mainly, organic apples) and on the reputation of the brand “Val Venosta”. Only in a second time, the Association applied for the PGI registration “Mela dell’Alto Adige”.

3. For the target of young consumers, Melinda is shown as a ‘friendly’ apple appealing mainly to medium – high socio-cultural sections.

The Consorzio VOG created the brand Marlene in 1995, and is committed to spreading consumer awareness of a high quality organoleptic and hygiene-health characteristics. About ten years after, the application for PGI status constituted the completion of VOG strategy.

In both cases, PDO and PGI go to complement a strong brand; the success of PDO and PGI seems in fact to depend on robust organisation of production supply. They add value only where applied to a brand, or where they create a brand, which has a solid reputation on the market thanks to efficient company organisation.

Our case studies appear to suggest that, allowing for variables of size of production and processing area, seasonal nature and volume of output, geographical recognition is efficacious only in the presence of “product and brand”. In other words, there needs to be guaranteed quality, efficient supply chain and adequate consumer information at the basis of any process of product enhancement. These factors are all necessary for a geographical marker to act as a differentiation element in consumer choice.

3.2 Investigation of a collective umbrella brand “QC – Qualità Controllata”

The collective umbrella brand “QC - Qualità Controllata” guarantees agri-food products of integrated pest management. This is environmentally friendly and health conscious, and the use of chemicals in pesticides, fertilizers and water is limited¹.

The Region Emilia-Romagna launched QC at the beginning of the 1990s in Italy and overseas. It targeted mainly distribution, particularly Italian supermarket chains and only to a limited extent consumers, who are thus not familiar with it. But with the rapid spread of modern distribution in the 1990s, supermarket own brands became more important particularly for very fresh products. Own brands rather than producer brands were widely displayed on the shelves, and QC, largely unrecognised by consumers became less attractive to supermarkets. QC makes private labels less visible, and largely unrecognised, it is not a service to consumers in terms of product range. Similarly, traditional retail has no incentive for offering QC products unless institutions or firms provide adequate consumer information to explain the price differential.

This case study also looked at the impact of EU legislation on consumer information. In recent years, the European Commission and the Court of Justice have pronounced on public umbrella brands. The Court of Justice has ruled that only the intrinsic characteristics of a product may be a requirement for registration and that origin alone may not be a requirement, given that every EU business must be able to have access to a brand without territorial limit.

As a consequence of this ruling, QC like many other labels was converted from being an instrument enhancing the link between product and area to a quality brand. The statute was amended and reference was no longer made to area of origin of the holders. But information and publicity failed to take account of this change, and now make ambiguous reference to both quality and area, which inevitably makes the message less efficacious. Theoretically collective brands aim to reduce the information gap between producers and the market, but our case studies suggest that this does not always happen in reality.

In the case of public umbrella brands, the way forward appears to branding policy. This should be effective in traditional retail as well as supermarket chains, and supermarkets could in fact be willing to collaborate with producers and accompany their own label brands with collective brands.

1. QC products are flour, bread, cereals, fresh and preserved fruits, unshelled walnuts, mushrooms / fungi, fresh and preserved vegetables, frozen fruit and vegetables, vines and wine grapes, beef, poultry and certain fish.

3.3 *Some remarks on the case studies*

Legislation and legal aspects are an interesting starting point for the assessment of the role of quality markers in enhancing very fresh products, as it explains behaviour of certain operators and its effect on economic performance of the markers.

An efficacious and efficient branding policy in the sector requires a distinction between the two instruments "collective brand" and "geographical marker" (PDO and PGI). This distinction reflects the legal differences in the two instruments, which in turn reflect their different functions. PDO and PGI, two geographical markers, certify only the link with an area and compliance with product specifications. Promotion of any other product characteristic is matter for public and / or private operators, who may use a collective or company brand for this purpose.

Our case studies confirmed this. Any quality marker ensures product enhancement only where two conditions are met. The first, necessary but not sufficient, is the quality of the product, which must be original and attractive to the consumer. The second is that efficient commercial organisation must support information and correct perception of these characteristics on the market.

The economic value of the geographical marker is limited to the fact that it distinguishes the product geographically, the basic criterion for PDO. But commercially the product needs to be defined in other ways and adequately supported at firm level.

A second legal aspect of labelling is the fact that member states were allowed to legislate for collective brands to include the geographical origin of a product or service. This led many public bodies, such as regional authorities, to register their ownership of geographical brands. As we saw, these brands were subsequently contested by the European Commission and the Court of Justice, which ruled that access to the brands was to be opened up to EU firms complying with quality specifications from outside the defined area. Various brands that had originally been conceived of as signalling a geographical link for a product were converted into quality brand. Consumer information did not keep pace with the change and consumers continue to associate the product with the area named on the logo. Clear and concise consumer information we found, in fact, to be one of the basic requirements for an efficient branding strategy, along with quality characteristics. But when public collective brands were amended in line with EC and ECJ rulings, this clear information was not made available. "Hybrid" brands came into being; from the legal point of view they are quality brands but they continue to be publicised more or less explicitly as geographical brands.

A second crucial aspect is the structure of the supply chain. We found that there is no single model for a typical PDO and PGI fruit and vegetable product. The traditional variables such as the size of the area supplying raw ingredients, the size of the processing area, seasonal variation in supply and output volume are not sufficient to classify producer behaviour. In fact, any discussion of geographical markers in agri-food products needs to be contextualised by reference to economic and non-economic factors. Both economic and non-economic factors are affected by the production sector and end market.

With this premise, our study identified two macro-categories of fruit and vegetable production. The first includes mainly PDO and PGI products, characterised by low output levels, production and distribution not integrated in the supply chain and absence of branding policy. Supply chains often comprise firms of different sizes which are different in terms of organisation and capital, and supply is unsteady and uneven in quality. In many cases there is no association, consortium or cooperative to manage the product overall and the marketing mix reflects this weakness.

The second macro-category consists of those few products where branding strategy is carried out and is supported by an efficient supply chain thanks to good overall organisation.

We have seen that a geographical marker and a collective brand add value to a product only

where the product is of sound quality and where its reputation is consolidated on the market through concerted producer action. Their ability to promote, enhance and protect fruit and vegetable products depends on the state of the national fruit and vegetable end market.

This market is dominated by traditional retail outlets; 55%, with higher levels in the south of Italy. Short and medium term forecasts show that this will continue to be the case, although supermarket distribution is set to increase. We thus need to examine strategies in both traditional and modern retail to assess which channels are best for labelled products.

Supermarket chains for some years have been enhancing own brands at the expense of company and collective brands. Our study of Melinda and Marlene apples showed that in the fruit and vegetable sector, the stronger the producer brand, the more reluctant the supermarket to display the product on the shelf. Marlene is widely available at modern retail outlets but, however strong, it is not a market leader. The wide range of apples on offer does not emphasise a close link with product origin apart from a good service in the supply of different goods. Melinda, on the other hand, is perceived as the Golden Delicious apple par excellence and thus puts pressure on the supermarkets' own label apple.

Examination of the umbrella brand QC also showed that retailers are not willing to pay more for the guarantee offered by collective quality brand, especially if it is not familiar to consumers. One reason for this is that supermarket chains are able to ensure quality in fruit and vegetables by GlobalGAP certification and/or their own production requirements.

In countries where supermarket distribution is better established than in Italy there are however forms of collaboration between chains and producer brands, both company and collective ones, which in fact are starting to appear in Italy too. Supermarket strategy appears to be moving increasingly towards own brands, so there is room for collaboration between producer brands with a good reputation among consumers, and premium price own brands. This co-branding in combining the guarantee of the collective and/or company brand and the supermarket own label could further segment the market and cater to the requirements of consumers aware of both producer reputation and product origin. In fact the future of fruit and vegetable distribution in Italy appears to lie mainly in both traditional retail, including street traders, and outlets smaller than supermarkets. Italian consumers state their preference for small independent chains where they find more traditional customer service, including product information and home delivery as well as interpersonal relationships. Supply chain operators too identify the best way forward for producer brands in these alternative chains, which constitute an alternative to modern distribution and its emphasis on own label and pursuit of customer loyalty to the supermarket.

Whichever distribution channel is used, branding policy and investment in the end market are the two essential ingredients. PDO and PGI geographical markers or collective brands are optional extras. Only if the collective or company brand had a solid reputation with consumers would supermarkets retain these products on their shelves and collaborate with suppliers. This is even more true for traditional retail, where customers look for quality guarantees in producer brands.

4. Conclusions

Our analysis and case studies lead to the conclusion that collective brands and geographical markers contribute to enhancement of very fresh products only where there exists a culture of 'brand' in the widest sense. Where the firm is efficient, the consumer relies on 'brand' incorporating distinctive product characteristics as well as company history, consumer experience of the product, the level of recognition, the capacity to meet expectations of potential purchasers etc.. Brand equity is created through organisation of the supply chain, definition of intrinsic product quality and consumer information and promotion, and requires large amounts of time resources and effort. Considering that the main player involved in market success is the consumer

with her perception of the product, the producer needs to use the same logic as distributor and offer not an undifferentiated product, but a branded product complete with its different components of value.

5. References

- Arfini F. (2000), The Value of Typical Products: the Case of "Prosciutto di Parma" and "Parmigiano Reggiano Cheese, in Sylvander B., Barjolle D., Arfini F. (a cura di), Atti e Comunicazioni "The Socio-Economics of Origin Labelled Products in Agro-Food Supply Chains: Spatial, Institutional and Co-ordination" INRA n. 17.
- Boccaletti S., Moro D. (1993), La difesa delle produzioni agroalimentari tradizionali nella CEE, *Rivista di politica agraria*, n.2.
- Cesaretti G.P., Green R. (2006), L'organizzazione della filiera ortofrutticola. Esperienze internazionali a confronto, Franco Angeli, Milano.
- DINTEC (2003), La qualificazione commerciale dei prodotti attraverso l'utilizzo dei marchi collettivi, con la collaborazione di Albisinni F., Carretta E., INDIS.
- Dries E., Mancini M.C. (2006) Food quality assurance and certification schemes, Background Paper, Food Quality Schemes Project, European Commission.
- Giacomini C., Cernicchiaro S., Mancini M.C., Menozzi D. (2007): "Lo sviluppo dei marchi geografici collettivi e dei segni distintivi per tutelare e valorizzare i prodotti freschissimi", Franco Angeli, Milano.
- Shapiro C. (1983), Premiums for high quality products as a return to reputations, *The quarterly journal of economics*, vol.97

